

## Internal Revenue Service

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Department of the Treasury

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Third Party Communication: None

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Date:

February 18, 2020

### LEGEND

X =

A =

B =

C =

E =

F =

G =

Trust1 =

Trust2 =

Trust3 =

Trust4 =

Trust5 =

Trust6 =

State =

Date1 =

Date2 =

Date3 =

Date4 =

Dear :

This responds to a letter dated August 23, 2019, and subsequent correspondence, submitted on behalf of X by the authorized representatives of X, requesting a ruling under §1362(f) of the Internal Revenue Code (“Code”).

### FACTS

The information submitted states that X was incorporated under the laws of State on Date1 and elected to be an S corporation effective on Date2. At the time of X’s incorporation, A, B and C owned all of the outstanding shares of X. Upon X’s formation, A, B and C contributed all of their shares in X to Trust1, Trust2 and Trust3, respectively. According to the information submitted, Trust1, Trust2 and Trust3 were irrevocable trusts treated as grantor trusts for federal income tax purposes. On Date3, A died. Pursuant to the trust agreement governing Trust1, upon A’s death Trust1 was to be divided into three separate trusts, Trust4, Trust5 and Trust6, for the benefit of A’s three children, E, F and, G, respectively. X represents that Trust4, Trust5 and Trust6 were intended to qualify as Qualified Subchapter S Trusts (QSSTs), except that no QSST

elections had been timely filed on behalf of these trusts effective on or before Date4 (within two years of A's death). X represents that Trust4, Trust5 and Trust6 otherwise always have met the requirements to be QSSTs.

X represents that X and all of X's shareholders have filed tax returns consistent with X being an S corporation since Date4. X further represents that the circumstances resulting in the termination of X's S corporation election were inadvertent and were not motivated by tax avoidance or retroactive tax planning. X and each person who was a shareholder of X at any time since Date4 agree to make any adjustments (consistent with the treatment of X as an S corporation) as may be required by the Secretary with respect to such period.

### LAW AND ANALYSIS

Section 1361(a)(1) provides that the term "S corporation" means, with respect to any taxable year, a small business corporation for which an election under § 1362(a) is in effect for such year.

Section 1361(b)(1)(B) provides that a "small business corporation" means a domestic corporation that is not an ineligible corporation and that does not have as a shareholder a person (other than an estate, a trust described in § 1361(c)(2), or an organization described in § 1361(c)(6)) who is not an individual.

Section 1361(d)(1) provides, in pertinent part, that a QSST whose beneficiary makes an election under § 1362(d)(2) will be treated as a trust described in § 1361(c)(2)(A)(i), and the QSST's beneficiary will be treated as the owner (for purposes of § 678(a)) of that portion of the QSST's S corporation stock to which the election under § 1361(d)(2) applies. Under § 1361(d)(2)(A), a beneficiary of a QSST may elect to have § 1361(d) apply. Under § 1361(d)(2)(D), the election will be effective up to 15 days and two months before the date of the election.

Section 1361(d)(3) provides that for purposes of § 1361(d), the term "qualified subchapter S trust" means a trust (A) the terms of which require that – (i) during the life of the current income beneficiary, there shall be only one income beneficiary of the trust; (ii) any corpus distributed during the life of the current income beneficiary may be distributed only to such beneficiary; (iii) the income interest of the current income beneficiary in the trust shall terminate on the earlier of such beneficiary's death or the termination of the trust; and (iv) upon termination of the trust during the life of the current income beneficiary, the trust shall distribute all of its assets to that beneficiary; and (B) all of the income (within the meaning of § 643(b)) of which is distributed (or required to be distributed) currently to one individual who is a citizen or resident of the United States.

Section 1.1361-1(j)(6)(ii) of the Income Tax Regulations provides that the current income beneficiary of the trust must make the election by signing and filing with the

service center with which the corporation files its income tax return the applicable form or a statement including the information listed in § 1.1361-1(j)(6)(ii).

Section 1362(a)(1) provides that, except as provided in § 1362(g), a small business corporation may elect, in accordance with the provisions of § 1362, to be an S corporation.

Section 1362(d)(2) provides that an election under § 1362(a) shall be terminated whenever (at any time on or after the first day of the first taxable year for which the corporation is an S corporation) such corporation ceases to be a small business corporation. A termination of an S corporation election under § 1362(d)(2) is effective on or after the date of cessation.

Section 1362(f) provides, in pertinent part, that if (1) an election under § 1362(a) by any corporation was terminated under § 1362(d)(2) or (3); (2) the Secretary determines that the circumstances resulting in such termination were inadvertent; (3) no later than a reasonable period of time after discovery of the circumstances resulting in the termination, steps were taken so that the corporation is a small business corporation; and (4) the corporation, and each person who was a shareholder of the corporation at any time during the period specified under § 1362(f), agrees to make the adjustments (consistent with the treatment of the corporation as an S corporation) as may be required by the Secretary for that period, then, notwithstanding the circumstances resulting in such termination, the corporation shall be treated as an S corporation during the period specified by the Secretary.

### CONCLUSION

Based solely on the facts submitted and the representations made, we conclude that X's S corporation election terminated on Date4 due to the failure E, F and G to properly and timely file QSST elections on behalf of Trust4, Trust5 and Trust6, respectively. We further conclude that this terminating event was inadvertent within the meaning of § 1362(f). Pursuant to the provisions of § 1362(f), X will be treated as continuing to be an S corporation effective Date4 and thereafter, unless X's S corporation election otherwise terminated under § 1362(d).

This ruling is contingent upon E, F and G filing QSST elections on behalf of Trust4, Trust5 and Trust6, respectively, with an effective date of Date4, within 120 days of the date of this letter. A copy of this letter should be attached to each QSST election. In addition, to the extent that Trust4, Trust5 and Trust6, or their respective beneficiaries E, F and G, filed any federal income tax returns inconsistent with these trusts' treatment as QSSTs, such trusts and their beneficiaries are required to file, within 120 days of the date of this later, amended returns that are consistent with this treatment for all relevant taxable years that remain open under the statute of limitations.

Except as expressly provided herein, no opinion is expressed or implied concerning the tax consequences of any aspect of any transaction or item discussed or referenced in this letter. Specifically, no opinion is expressed or implied regarding X's eligibility to be an S corporation or the validity of its S corporation election. Further, no opinion is expressed or implied as to whether Trust4, Trust5 and Trust6 qualify as QSSTs.

The ruling contained in this letter is based upon information and representations submitted by the taxpayer and accompanied by a penalty of perjury statement executed by an appropriate party. While this office has not verified any of the material submitted in support of the request for a ruling, it is subject to verification on examination.

This ruling is directed only to the taxpayer requesting it. Section 6110(k)(3) of the Code provides that it may not be used or cited as precedent.

In accordance with the Power of Attorney on file with this office, copies of this letter are being sent to your authorized representatives.

Sincerely,

Stacy L. Short  
Senior Technician Reviewer, Branch 3  
Office of Associate Chief Counsel  
(Passthroughs & Special Industries)

Enclosures (2)  
Copy of this letter  
Copy for § 6110 purposes